

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BEC1034 – MICROECONOMICS

(All sections / Groups)

5 JUNE 2018

9.00 a.m. - 11.00 a.m.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **ELEVEN (11)** printed pages with:
Section A: Forty (40) multiple choice questions (40 marks)
Section B: Three (3) structured questions (60 marks)
2. Answer **ALL** questions.
3. Answer **Section A** in the multiple-choice answer sheet provided and **Section B** in the answer booklet provided.
4. Marks are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

There are FORTY (40) questions in this section. Answer ALL questions on the multiple choice answer sheet.

1. People are forced to make choices because of
 - a. unlimited wants and unlimited resources.
 - b. limited wants and unlimited resources.
 - c. unlimited wants and limited resources.
 - d. limited wants and limited resources.

2. Which of the following would be of particular interest to a microeconomist?
 - a. The price of fruit the typical household consumes.
 - b. The nation's inflation rate.
 - c. The nation's rate of employment.
 - d. The growth of the economy.

3. The Minister from the Human Resource Ministry states that wage rates in the country have risen by 2 percent in the past year. The head of a local labour union states that wage gains have not kept with pace with the 3 percent rate of inflation. The Minister's statement is a(n) _____ economic statement, and the labour head's statement is a(n) _____ economic statement.
 - a. normative; normative.
 - b. normative; positive.
 - c. positive; normative.
 - d. positive; positive.

4. A good or service that is forgone by choosing one alternative over another is called a (an)
 - a. explicit cost.
 - b. opportunity cost.
 - c. economic cost.
 - d. accounting cost.

5. Refer to Table 1.

Table 1

	A	B	C	D	E
Capital goods	0	10	20	30	40
Consumer goods	200	180	140	80	0

According to the data in **Table 1**, a total output of 140 units of consumer goods and 10 units of capital goods would illustrate the concept of

- a. Trade-off.
- b. Opportunity cost.
- c. Inefficiency.
- d. Efficiency.

Continued...

6. Which of the principles of economics is related to the following statement?
- “A lawyer sends his son to daycare center before he goes to work every morning.”
- Trade can make everyone better off.
 - Rational people think at the margin.
 - People respond to incentives.
 - Markets are usually a good way to organize economic activity.
7. A movement along the demand curve for automobiles is caused by a change in
- the price of automobiles.
 - the price of petrol.
 - the price of steel.
 - the price of public transport.
8. Which of the following will increase the demand for motorcycles?
- A fall in the price of motorcycles.
 - A fall in insurance rates for motorcycles.
 - A fall in the price of automobiles.
 - A fall in consumers' incomes (assume that motorcycles are normal good).
9. Which of the following events would increase the supply of tomatoes?
- The introduction of mechanized tomato pickers, which raises the cost of production.
 - An increase in wages for the tomato pickers.
 - A decrease in the cost of fertilizers for the tomato plants.
 - Unseasonably hot, dry weather in tomato-growing regions of the nation.
10. Refer to **Table 2**.

Table 2		
Price per quart (RM)	Quantity demanded (Quarts per week)	Quantity supplied (Quarts per week)
0.70	20	180
0.60	60	140
0.50	100	100
0.40	140	60
0.30	180	20

In **Table 2**, which of the following are the equilibrium price and equilibrium quantity in the milk market?

- RM0.70 per quart and 200 quarts of milk.
- RM0.60 per quart and 100 quarts of milk.
- RM0.50 per quart and 100 quarts of milk.
- RM0.40 per quart and 60 quarts of milk.

Continued...

11. If demand is price elastic, a decrease in price causes
 - a. an increase in total revenue.
 - b. a decrease in total revenue.
 - c. no change in total revenue.
 - d. an increase in quantity, but anything can happen to revenue.
12. Using the midpoint formula, what would be the price elasticity of demand for a gallbladder operation if the number of operations fell from 6,000 to 4,000 per week after its price increased from RM6,000 to RM10,000?
 - a. 0.25.
 - b. 0.50.
 - c. 0.80.
 - d. 1.25.
13. The president of Volkswagen Motors says, "Lowering the price won't sell a single additional Volkswagen car." The president believes that the price elasticity of demand is
 - a. perfectly elastic.
 - b. perfectly inelastic.
 - c. elastic.
 - d. inelastic.
14. The price elasticity of demand coefficient for a good will be greater
 - a. if close substitutes exist.
 - b. if minor complements exist.
 - c. in the short run.
 - d. if a small portion of the budget will be spent on it.
15. Price ceilings set below the equilibrium create
 - a. externalities.
 - b. unemployment.
 - c. shortages.
 - d. surpluses.
16. The tax burden shared between buyers and sellers is determined by
 - a. price elasticity of demand.
 - b. income elasticity of demand.
 - c. cross-price elasticity of demand.
 - d. demand and supply.

Continued...

17. A price floor would be established in cases where the government believed the market equilibrium price would
- result in a surplus.
 - be too high.
 - result in shortage.
 - be too low.
18. The income effect for an inferior good is
- negative.
 - zero.
 - positive.
 - undefined.
19. Movies are RM10 per ticket, and videotape rentals are RM5 per tape per day. With movies on the vertical axis, the slope of the budget line is
- 0.50.
 - 2.00.
 - 5.00.
 - 10.00.
20. As a consumer moves up and to the left along an indifference curve, the
- consumer's total satisfaction does not change.
 - consumer's total satisfaction generally decreases.
 - income required to buy the combinations of the goods always increases.
 - relative prices of both goods fall.
21. A change in the wage rate has
- a substitution effect and an income effect.
 - a substitution effect but no income effect.
 - an income effect but no substitution effect.
 - neither an income nor a substitution effect.
22. A young chef is considering opening his own sushi bar. To do so, he would have to quit his current job, which pays RM20,000 a year, and take over a store building that he owns and currently rents to his brother for RM6,000 a year. His expenses at the sushi bar would be RM50,000 for food and RM2,000 for gas and electricity. What are his explicit costs?
- RM26,000.
 - RM66,000.
 - RM78,000.
 - RM52,000.

Continued...

23. During the course of a week, McDonald's has enough time to hire or layoff workers, but it does not have enough time to expand its kitchen or add an additional seating area. In this situation, McDonald's
- has no fixed costs.
 - is in the short run.
 - suffers an economics loss.
 - earns a large profit.

24. Refer to Table 3.

Table 3

Number of labours	Total product (units)
0	0
1	8
2	20
3	25
4	28
5	29

In Table 3, diminishing returns set in when the _____ worker is hired.

- first.
 - second.
 - third.
 - fourth.
25. Assume that a firm's marginal revenue exceeds marginal cost. Under these conditions, the firm should
- expand output.
 - reduce output.
 - maintain output.
 - There is insufficient information to answer the question.

26. Refer to Table 4.

Table 4

Quantity (units)	Price (RM)	Average Variable Cost (RM)	Average Total Cost (RM)	Marginal Cost (RM)
0	12	-	-	-
1	12	3	5	5
2	12	5	6	7
3	12	7.3	8	12
4	12	9.5	10	16

In Table 4, following the rule regarding marginal revenue (MR) and marginal cost (MC), the most profitable output level is

- 0.
- 1.
- 2.
- 3.

Continued...

27. A fishing boat owner brings 50,000 fish to market and the market price is RM4 per fish. Her average variable cost is RM1 and the fixed cost of the boat is RM100,000. What is her profit per fish?
- RM 1.
 - RM 500.
 - RM 5,000.
 - RM 25,000.
28. In long run equilibrium, the typical perfectly competitive firm has no incentive to
- change output.
 - change plant size.
 - enter or leave the industry.
 - do any of the above.
29. The demand curve a monopolist faces
- is more elastic than a perfectly competitive firm's demand curve.
 - is the market demand curve.
 - is as elastic as a perfectly competitive firm's demand curve.
 - is not affected by the prices of complements.
30. Which barrier to entry results in the creation of a natural monopoly?
- Legal barriers like government franchises.
 - Economies of scale.
 - Ownership of a vital resource.
 - Patents and copyrights.
31. Monopolists are being criticized because they are inefficient. What does this statement mean?
- Monopolists charge too high a price.
 - Monopolists do not innovate to control pollution.
 - Monopolists produce a large quantity of waste.
 - Monopolists produce where price is greater than marginal cost.
32. Which of the following is the best example of monopolistically competitive market?
- Wheat.
 - Automobiles.
 - Diamonds.
 - Retail sales.
33. In the long run, monopolistically competitive firms tend to
- have excess capacity.
 - earn positive profits.
 - produce at minimum average costs.
 - produce homogeneous production.

Continued...

34. A monopolistically competitive firm will
- maximize profits by producing where marginal revenue equal marginal cost.
 - not likely earn an economic profit in the long run.
 - shut down if price is less than average variable cost.
 - all of the above.
35. If a firm in an oligopoly lowers price and triggers a price war,
- all firms will be worse off.
 - the firm initiating the price cut will be worse off than the others.
 - consumers will not be fooled into buying at lower prices.
 - profits of firms in competing industries will rise.
36. Suppose an oil cartel has an agreement to restrict members' production in order to maintain a price of \$30 per barrel. A single cartel member may want to cheat and exceed its quota so that it can
- reduce its costs.
 - charge higher prices.
 - make demand more inelastic.
 - earn a bigger profit.
37. A characteristic of an oligopoly is
- mutual interdependence in pricing decisions.
 - independent pricing decisions.
 - lack of control over prices.
 - none of the above.
38. An apple orchard currently hires 10 workers. The owner estimates that hiring an additional worker would increase apple yields by 20 bushels per day. The price of apples is RM 15 per bushel. The owner should an extra worker if the wage rate is no greater than
- RM 50 per day.
 - RM 150 per day.
 - RM 200 per day.
 - RM 300 per day.
39. Other things equal, assume that consumer demand for children's toys increases. The result is a (an)
- rightward shift in the market demand for labour curve in the toy industry.
 - increase in the marginal revenue product of firms in the toy industry.
 - increase in derived demand for workers in the toy industry.
 - all of the above.

Continued...

40. If cats become a more popular pet in Malaysia than dogs, what can we expect to happen to the market for cat food factory workers?
- a. marginal product increases.
 - b. marginal revenue product increases.
 - c. marginal product decreases.
 - d. marginal revenue product decreases.

[Total: 40 marks]

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SECTION B: STRUCTURED QUESTIONS (60 Marks)

There are **THREE** questions in this section. Candidates **MUST** answer **ALL THREE** questions.

Question 1

Read the following passage.

Vegetable prices may drop after Chinese New Year, farmers say

IPOH, Jan 27 — The prices of vegetables grown in Cameron Highlands may be expensive now but will likely drop after the Chinese New Year festivities next month... weather permitting.

Cameron Highlands Farming Operators association chairman Ng Tien Khuan said the current prices that have doubled is due to high demand compounded by a 30 per cent drop in production caused by labour shortage and the rainy season.

He said that past experience has shown that the rainy spell usually lets up later in February, adding that demand for vegetables is also expected to drop slightly after the lunar new year celebration, which will result in cheaper prices.

“Normally near Chinese New Year, we have good weather so this will make production better,” he said

“However, given the recent weather we've seen, it is hard to say how the weather will turn,” Ng added.

Aside from the inclement weather, Cameron Highlands farmers are also dealing with workforce problems, with reports claiming at least a quarter of farms have had their manpower halved.

Cameron Highlands Agricultural Cooperative Association representative Wong Seng Yee said the shortage of farmhands affects productivity even more during the rainy season.

“When it rains, the pesticides wash off quickly, and they need to be replaced in order for the vegetables to grow.

“When there are fewer workers it becomes harder to do this quickly. Productivity drops in terms of quality and quantity,” he explained.

Like Ng, Wong also said that the biggest obstacle for the farmers is the one they can't control — the weather.

“However, if the weather becomes better, production will go up. There will be fewer people spending heavily on vegetables so demand will go down as well,” he told *Malay Mail*.

Source: Loghun Kumaran (January 27, 2018). Retrieved from <http://www.themalaymailonline.com/malaysia/article/>.

Continued...

Based on the passage above, answer the following questions:

- (a) Identify **ONE (1)** principle of economics that best describes the content of the passage. Justify your answer. (4 marks)
- (b) State whether the statement made by Mr. Ng Tien Khuan is positive or normative.
 “The current prices that have doubled is due to high demand compounded by a 30 per cent drop in production caused by labour shortage and the rainy season.” (4 marks)
- (c) Discuss a relevant factor that caused:
- (i) a shift in the supply of vegetables. (4 marks)
- (ii) a shift in the demand for vegetables. (4 marks)
- (d) Explain the likely coefficient of price elasticity of demand for vegetables and price elasticity of supply of vegetables in Malaysia. (4 marks)
- [Total: 20 marks]**

Question 2

- (a) Malaysia government had implemented 6% Goods and Services Tax (GST) on 1 April 2015. Explain how the burden of GST divided between seller and buyer. (6 marks)
- (b) “All demand curves must slope downward.”
 Do you agree with the above statement? Justify your answer. (4 marks)
- (c) **Table 5** provides the price and cost information for a playdough firm.

Quantity (units)	Price (RM)	Average Variable Cost (AVC)	Average Total Cost (ATC)	Marginal cost (MC)
0	18	-	-	-
1	18	4.5	7.5	7.5
2	18	7.5	9	10.5
3	18	10.95	12	18
4	18	14.25	15	24

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Based on **Table 5**, answer the following questions:

- (i) Assess the type of market structure that the playdough firm involved. (2 marks)
- (ii) Compute the total profit earned or loss made by the playdough firm when the quantity is 4 units. (2 marks)
- (iii) Based on part (ii), illustrate the condition of the playdough firm in both short run and long run equilibrium using an appropriate diagram. (6 marks)

[Total: 20 marks]

Question 3

- (a) Show the differences between monopolistic competition, oligopoly and monopoly using the following characteristics:
 - (i) Number of firms (3 marks)
 - (ii) Condition to enter the market (3 marks)
 - (iii) Mutual interdependence (3 marks)
 - (iv) Price discrimination (3 marks)
- (b) Discuss the effect of high demand for capital on a labour market using appropriate diagrams (*Assume capital and labour are complement inputs*). (8 marks)

[Total: 20 marks]

End of Questions

